

The United States
Merit Systems Protection Board



Performance and Accountability Report
for
Fiscal Year 2005

November 15, 2005

Forward

The Merit Systems Protection Board (MSPB) presents our Performance and Accountability Report (PAR) for fiscal year (FY) 2005. This report contains the annual audited financial statement required by the Accountability of Tax Dollars Act (ATDA) and the annual performance report required by the Government Performance and Results Act (GPRA). The financial accountability report section of the PAR also includes the annual report on internal controls required by the Federal Managers' Financial Integrity Act (FMFIA).

The PAR has been prepared in accord with guidance provided by the Office of Management and Budget and other sources. The MSPB PAR for FY 2005 was prepared by Government employees except for the audit that was conducted by independent auditors. MSPB will duplicate and bind copies of the FY 2005 PAR sufficient for the November 15, 2005 distribution to the President, the Office of Management and Budget (OMB), and Congress and will make the PAR available in electronic form on the MSPB website (www.mspb.gov). The PAR will be printed at a later date, and copies may be ordered from the Clerk of the Board, Merit Systems Protection Board, 1615 M Street, NW, Washington, DC 20419.

We invite our customers and stakeholders to provide comments to improve this report. Please send comments to:

Merit Systems Protection Board
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The Merit Systems Protection Board Performance and Accountability Report For Fiscal Year 2005

A Message from the Chairman



It is my honor to submit the Merit Systems Protection Board's (MSPB) Performance and Accountability Report (PAR) for FY 2005. The accomplishments presented here are the result of the expertise and dedication of our employees, with whom Member Sapin and I are proud to serve. I am pleased to report that we met or exceeded all FY 2005 performance goals. In addition, the Board received a clean audit of its financial statements for FY 2005.

MSPB serves as the independent, bipartisan protector of the merit systems under which Federal employees work. The Board's role in protecting the merit systems is essential to ensuring the American people that their Federal civil servants are well qualified to perform their work and able to serve the public free from management abuse and partisan political pressure. The Board has two statutory missions – to provide the opportunity for independent adjudication of appeals of personnel actions to over 1.8 million Federal employees; and to conduct studies of the civil service to ensure that employees are managed in accord with the merit principles and free from prohibited personnel practices.

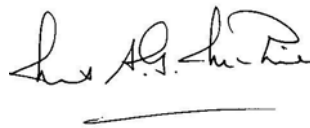
FY 2005 was a very successful year for the MSPB. Our regional and field offices continued their timely and high quality adjudication of initial appeals. At headquarters, we undertook several actions to improve the petition for review (PFR) process. As a result, we reduced our inventory of PFRs by nearly 50 percent while maintaining the quality of work on those cases. MSPB had its first Special Panel case in 13 years and successfully hosted the hearing during which the MSPB Chairman, Chair of the EEOC, and the Chairman of the special panel heard testimony on, and ultimately decided an important precedent setting case. We completed and approved six merit systems studies and four editions of our *Issues of Merit* newsletter. The topics of these reports included the use of the probationary period, reference checking procedures, and a review of the Federal Career Intern Program (FCIP). In addition, we collaborated with civil service officials in Canada and Thailand; hosted visitors from Thailand, China, Vietnam, Japan, and Belgium; and presented at conferences in Ireland and Hungary. Our management support functions were also very successful this year. We held the largest legal conference in the Board's history, which featured an enlightening presentation by the Comptroller General of the United States. We continue to develop more flexible human resources management policies, upgraded our computers and servers, and continued to manage our financial resources in accord with applicable laws, resulting in a clean audit for the third successive year. These issues are addressed in more detail in the program performance and financial accountability sections of this report.

FY 2005 was a year of continued changes in Federal human capital management, improvements in MSPB's internal processes and retention of skilled staff, and continuing Board member vacancies. Both DHS and DoD continued to develop their alternative management systems. Each agency

published regulations retaining the right of their employees to file initial appeals and petitions for review with MSPB. These regulations set shorter time frames for MSPB to process these appeals and include other changes that will likely require establishing new legal precedents and make our studies role more complex. The Board is committed to meeting these challenges by ensuring we use effective and efficient processes and retaining the experienced staff we need to accomplish our work. It is also important that a full Board of three confirmed Board members reviews and decides these potentially precedent-setting cases. I am pleased to report my confirmation as Chairman and Ms. Sapin's as Board Member early in FY 2005. It is important that our third vacancy be filled early in FY 2006.

Finally, this report provides a variety of legally required assurances regarding our performance and financial data, management controls and financial systems. In accord with law and OMB guidance, I have determined that the performance and financial data included in this report are complete and reliable. All data reported were obtained from final FY 2005 statistical reports from the agency's case management system, final FY 2005 financial reports and reports submitted by the agency's program managers. There are no material inadequacies or non-conformances in either the completeness or reliability of the performance or financial data. In addition, following an assessment of MSPB's comprehensive management control program, I certify, with reasonable assurance, that MSPB's systems of accounting and internal control are in compliance with the provisions of the Federal Managers' Financial Integrity Act.

Respectfully,

A handwritten signature in black ink, appearing to read "Neil A. G. McPhie", with a horizontal line underneath.

Neil A. G. McPhie
Chairman

November 15, 2005

Management Discussion and Analysis

About the Merit Systems Protection Board

Agency Mission

The Merit Systems Protection Board (MSPB or the Board) is an independent quasi-judicial agency established to protect Federal merit systems against partisan political and other prohibited personnel practices. The Board carries out its statutory mission principally by:

- Adjudicating employee appeals of personnel actions over which the Board has jurisdiction, such as removals, suspensions, furloughs, and demotions;
- Adjudicating appeals of administrative decisions affecting an individual's rights or benefits under the Civil Service Retirement System or the Federal Employees' Retirement System;
- Adjudicating employee complaints filed under the Whistleblower Protection Act (WPA), the Uniformed Services Employment & Reemployment Rights Act (USERRA), and the Veterans Employment Opportunities Act (VEOA);
- Adjudicating cases brought by the Special Counsel, principally complaints of prohibited personnel practices and Hatch Act violations;
- Adjudicating requests to review regulations of the Office of Personnel Management (OPM) that allegedly require or have required the commission of a prohibited personnel practice—or reviewing such regulations on the Board's own motion;
- Ordering compliance with final Board orders where appropriate; and
- Conducting studies of the Federal civil service and other merit systems in the Executive Branch to ensure that they are free from prohibited personnel practices and reviewing the significant actions of the Office of Personnel Management to determine whether such actions are in accord with the merit system principles.

Board Organization

The **Board Members** adjudicate the cases brought to the Board. The **Chairman**, by statute, is the chief executive and administrative officer of the Board. Office heads report to the Chairman through the Chief of Staff.

The **Office of the Administrative Law Judge (ALJ)** adjudicates and issues initial decisions in corrective and disciplinary action complaints (including Hatch Act complaints) brought by the Special Counsel, proposed agency actions against administrative law judges, MSPB employee appeals, and other cases assigned by the Board. (The functions of this office are currently performed by administrative law judges at the National Labor Relations Board under an interagency agreement.)

The **Office of Appeals Counsel (OAC)** conducts legal research and prepares proposed decisions for the Board in cases where a party petitions for review of an administrative judge's (AJ's) initial decision and in most other cases decided by the Board. The office conducts the Board's petition for review settlement program, prepares proposed decisions on interlocutory appeals of rulings made by judges, makes recommendations on reopening cases on the Board's own motion, and provides research and policy memoranda to the Board on legal issues

The **Office of the Clerk of the Board (OCB)** receives and processes cases filed at Board headquarters, rules on certain procedural matters, and issues the Board's decisions and orders. The office serves as the Board's public information center, coordinates media relations, produces public information publications, operates the Board's library and on-line information services, and administers the Freedom of Information Act and Privacy Act programs. The office also certifies official records to the courts and Federal administrative agencies, and manages the Board's records and directives systems, legal research programs, and the Government in the Sunshine Act program.

The **Office of Equal Employment Opportunity (EEO)** plans, implements, and evaluates the Board's equal employment opportunity programs. It processes complaints of alleged discrimination and furnishes advice and assistance on affirmative action initiatives to the Board's managers and supervisors

The **Office of Financial and Administrative Management (FAM)** administers the budget, accounting, travel, time and attendance, human resources, procurement, property management, physical security, and general services functions of the Board. It develops and coordinates internal management programs and projects, including review of internal controls agency-wide. It also administers the agency's cross-servicing agreements with the U.S. Department of Agriculture's National Finance Center for payroll services, the Department of the Treasury's Bureau of the Public Debt for accounting services, and the U.S. Department of Agriculture's Business Services for human resources management services.

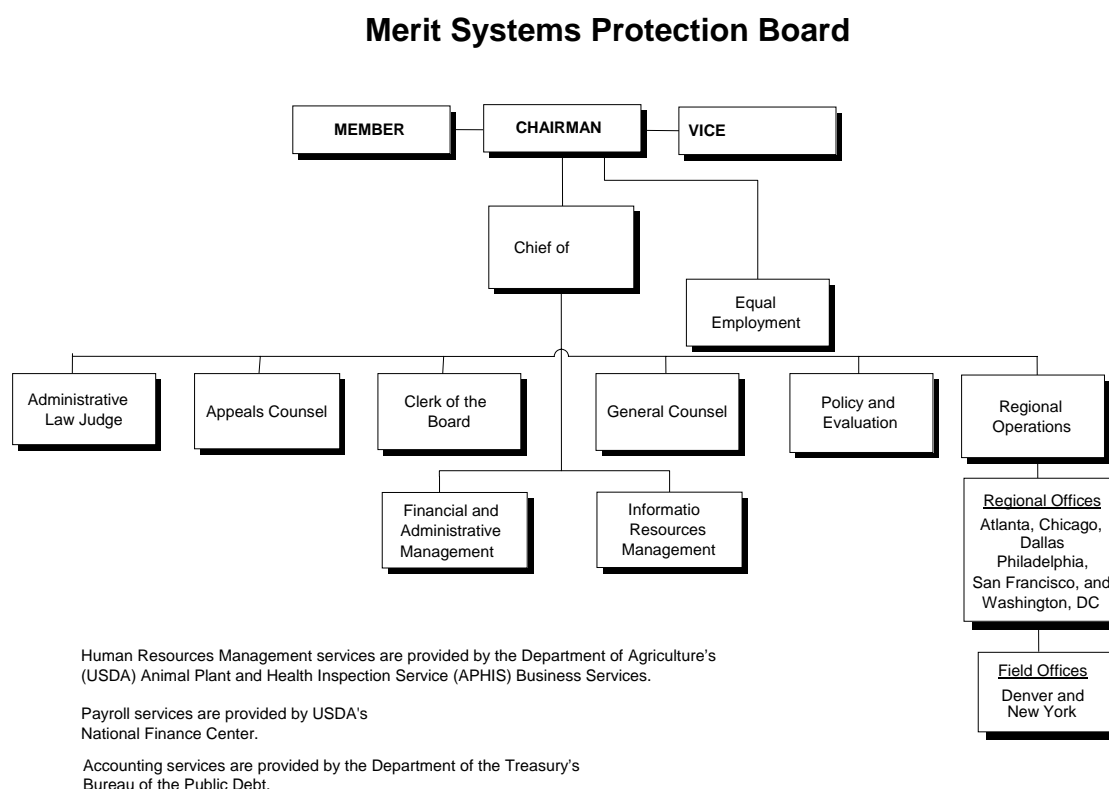
The **Office of the General Counsel (OGC)**, as legal counsel to the Board, provides advice to the Board and MSPB offices on matters of law arising in day-to-day operations. The office represents the Board in litigation, prepares proposed decisions for the Board on assigned cases, and coordinates the Board's legislative policy and congressional relations functions. The office also drafts regulations, conducts the Board's ethics program, and plans and directs audits and investigations.

The **Office of Information Resources Management (IRM)** develops, implements, and maintains the Board's automated information systems to help the Board manage its caseload efficiently and carry out its administrative and research responsibilities.

The **Office of Policy and Evaluation (OPE)** carries out the Board's statutory responsibility to conduct special studies of the civil service and other merit systems. Reports of these studies are directed to the President and the Congress and are distributed to a national audience. The office responds to requests from Federal agencies for information, advice, and assistance on issues that have been the subject of Board studies. OPE also conducts special projects for the Board and has responsibility for preparing the Board's reports required by the Government Performance and Results Act (GPRA).

The **Office of Regional Operations (ORO)** oversees the eight MSPB regional and field offices, which receive and process appeals and related cases. Administrative judges in the regional and field offices are responsible for adjudicating assigned cases and for issuing fair and well-reasoned initial decisions.

Organization Chart



Performance Goals and Results

The MSPB Performance Plan for FY 2005-FY 2006 consisted of 27 performance goals associated with the three strategic goals described in the agency's Strategic Plan for FY 2004-FY 2009. The MSPB exceeded or successfully met all 27 of these performance goals. Highlights of our program performance for FY 2005 are presented here and detailed performance information is available in the program performance section of the PAR.¹

Strategic Plan Goal 1, Adjudication

MSPB met 8 and exceeded 5 of the 13 performance goals under the adjudication strategic goal. The Board continues to issue high quality decisions as evidenced by 94% of cases left unchanged by the

¹ The performance goals for FY 2005 are those described in the MSPB Performance Budget for Fiscal 2006 submitted to the Congress on February 7, 2005. The performance goals for FY 2006, as described in this report, reflect revisions in certain goals that the MSPB made at the beginning of the current fiscal year. Further revisions may be made as the agency develops its Revised Final Performance Plan for FY 2006, which must be completed by December 31, 2005.

U.S. Court of Appeals for the Federal Circuit. We continue to meet our goal for processing initial appeals in the regions with an average processing time of 92 days. We conducted a thorough evaluation of our process for deciding PFRs and made some changes in our headquarters processes to improve the timeliness of processing appeals at this level. As a result, we exceeded our quality and timeliness goals for PFR processing at headquarters and adjusted most of our FY 2006 targets accordingly. We continue our success in using alternative methods to resolve cases, when appropriate. We met our goal for settlement of initial appeals and exceeded our goals for settlement of PFRs and for our mediation appeals program. We continued to make adjustments to our internal case processing and electronic appeals systems that were implemented in FY 2004. These systems help us more effectively and efficiently track and process cases, make it is easier for appellants and agencies to submit appeals and other case materials, and make communication more efficient among MSPB, appellants and agencies. In addition, MSPB successfully hosted the first special panel hearing held in 13 years during which the MSPB Chairman, Chair of the EEOC, and Chairman of the special panel heard testimony on, and ultimately decided an important precedent setting case.

Strategic Plan Goal 2, Merit Systems Studies

MSPB met 5 and exceeded 1 of the 6 performance goals under this strategic goal. We completed six merit systems studies and four editions of the *Issues of Merit* newsletter. The topics of these studies included reviews and recommendations on the probationary period, reference checking, and the Federal career intern program (FCIP). We exceeded our outreach goal by continuing to focus on outreach to managers and human resources professionals and by greatly expanding our international outreach. We met with civil service officials from Thailand and Canada; hosted visitors from Thailand, Belgium, Vietnam, China, and Japan; and presented at conferences in Ireland and Hungary. We also successfully administered the FY 2005 Merit Principles Survey (MPS)—our first automated and largest ever MPS—with a response rate of over 50%.

Strategic Plan Goal 3, Management Support

MSPB met all eight of the performance goals under this strategic goal. We continue to adjust and modernize our human resources management programs and to make effective and efficient use of automation and information technology to accomplish our work. We hired a new Chief Information Officer, and shifted the responsibilities for HR management to FAM. We received a clean audit on all of our financial statements for the third straight year.

Financial Statements

As of September 30, 2005 the financial condition of the Merit Systems Protection Board was sound with respect to having sufficient funds to meet program needs and adequate controls of these funds in place to ensure that obligations did not exceed budget authority. The MSPB prepared its financial statements in accordance with accounting standards codified in *Statements of Federal Accounting Standards* and OMB Circular A-136, *Financial Reporting Requirements*.

The Program and Financing Schedule shows the dollar and full-time equivalent (FTE) resources devoted to each of the three MSPB strategic goals which are aligned with our budget activities. It shows actual spending for fiscal years 2004 and 2005, and projected spending for fiscal 2006.

Summary by Budget Activity (Dollars In Thousands)						
	2004		2005		2006 (projected)	
Budget Activity	FTE	Amt	FTE	Amt	FTE	Amt
Adjudication	183	27,628	184	28,973	198	30,425
Merit System Studies	10	1,333	10	1,422	12	1,768
Management Support	27	3,405	28	3,739	26	3,407
Total Appropriated	220	32,366	222	34,134	236	35,600
Trust Fund Limitation	*	2,611		2,605	-	2,605
Total Available	220	34,977	222	36,739	236	38,205

In FY 2005, about 86 percent of the agency's resources were spent on the adjudication function, which processes the approximately 8,500 appeals the agency receives each year. About 4 percent of our resources were devoted to the merit system study function which conducts studies of the Federal personnel system and makes recommendations for improvements. In addition, about 10 percent of our resources were spent on management support, which provides the necessary administrative support to the agency as well as the development and implementation of information technology improvements, such as the President's management agenda item on e-government.

The principle financial statements have been prepared to report MSPB's financial position and results of operations pursuant to requirements of 31 U.S.C. 3515(b). While the statements have been prepared from MSPB's books and records in accordance with U. S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

For the last several years, MSPB has received funding increases to cover built-in cost increases for expenses such as pay raises. For FY 2006, there is no increase for these built-in increases expected. However, there may be an increase to allow MSPB to add staff to adjudicate appeals more quickly in accordance with the personnel regulations proposed by the Department of Homeland Security and the Department of Defense. Not having full funding for built-in increases may adversely impact the agency's ability to adjudicate all of the appeals received in a timely fashion and to continue issuing important, timely studies on the health of the Federal civil service system.

The balance sheet shows an increase in general property, plant, and equipment assets because MSPB has implemented a number of information technology software improvements, including the

increased capability for parties to file appeals and communicate electronically with the MSPB. The MSPB has also implemented new information technology software that is allowing MSPB's Administrative Judges and others to more efficiently process and file the case documents electronically.

Systems, Controls, and Legal Compliance

Federal Managers' Financial Integrity Act

In accordance with the Federal Managers' Financial Integrity Act (FMFIA or the Act), the Merit Systems Protection Board has an internal management control system, which helps provide assurance that (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures are properly recorded and accounted for. The Act also requires assurance that funds are being used in accordance with the agency's mission and that they are achieving their intended results; that resources are protected from waste, fraud and mismanagement, and that laws and regulations are followed. This Act encompasses program, operational and administrative areas, as well as accounting and financial management. The Act requires the Chairman to provide an assurance statement on the adequacy of management controls and conformance of financial systems with government-wide standards. The Chairman's assurance statement is contained in the transmittal letter.

During FY 2005, the MSPB continued its agreement with the Bureau of the Public Debt (BPD) for that agency to process financial transactions, make administrative payments, and prepare various financial reports required by the Department of the Treasury and the OMB. This agreement continued into and through FY 2005. The BPD uses the latest financial and other software for processing travel and other expenses. This financial review arrangement promotes the accuracy and timeliness of MSPB's financial records.

Improper Payments Act

MSPB has determined that there is no significant risk of improper payments at MSPB based on the review of its programs in fiscal year 2005.

Management Controls

MSPB's management review of the system of internal accounting and administrative control was evaluated in accordance with the applicable Federal guidance. The objectives of the system are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable laws;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures applicable to operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial, and statistical reports; and
- Accountability over the assets is maintained.

The evaluation of management controls extends to every responsibility and activity undertaken by MSPB and is applicable to financial, administrative and operational controls. Furthermore, the concept of reasonable assurance recognizes that: (1) the cost of management controls should not exceed the projected derived benefits; and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors and irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, restrictions and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that the procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Trends and Issues

The most significant trend affecting MSPB's ability to carry out its mission to protect the merit systems is the development of alternative human resources management systems—exemplified by those of DHS and DoD. The success of the Board's continued efforts to improve the effectiveness and efficiency of its internal procedures will also affect its ability to carry out its adjudicatory mission. Finally, the MSPB's ability to carry out its adjudicatory, studies and support goals is also affected by our ability to retain skilled staff and continuing Board member vacancies.

Alternative Human Resource Management Systems

In the past year, the most significant external trend affecting the Merit Systems Protection Board was the continuing development of the DHS and DoD alternative human resources management systems. When these systems are implemented, almost 1 million Federal employees – well over half of the Federal workforce -- will be managed under more flexible authorities than those in the traditional system codified in Title 5 and elsewhere in the U.S. Code.

Under its statute, DHS is free to establish its own internal appeals process which is not required to involve review by MSPB. In FY 2005, DHS issued final regulations that provide its employees a right of appeal to Board administrative judges and the right to file petitions for review of AJ decisions to the full Board. The regulations also shorten the timeframes for processing both initial appeals and PFRs, require the use of separate settlement judges and limit our authority to mitigate penalties. (DHS's regulations limiting the Board's mitigation authority were invalidated in *NTEU vs. Chertoff*, (D.D.C. August 12, 2005, order granting injunction.)) In addition, the timeline for implementing the DHS system, or parts thereof, has been altered due to recent Court decisions regarding certain aspects of the DHS system. We have decided that these new appeals timeframes will apply to all appeals, not just those from DHS. Therefore, we are reviewing and adjusting our internal procedures and planning to increase our staffing to ensure we can meet these new timeframes for all appeals.

The DoD statute also permits it to create its own internal system for initial appeals, but requires that its employees be able to petition the full MSPB Board as an outside, independent reviewer of decisions issued by an internal appeals system. However, following the approach taken by DHS, DoD issued proposed regulations that retain for its employees the right to file initial appeals to MSPB administrative judges. The DoD regulations also add a level of review by DoD of initial

MSPB decisions prior to an employee being able to file a petition for review with the full Board. In addition, the regulations require MSPB to use separate settlement judges in DoD cases and place limits on the degree to which MSPB can mitigate the penalties imposed by the agency. DoD issued its final regulations on November 1, 2005. We continue to monitor their progress and to prepare to receive cases when their system is implemented.

The laws authorizing both the DHS and DoD personnel systems also make certain provisions of traditional Title 5 law non-waivable and do not authorize waiver of provisions in any other title of the United States Code. Therefore, it appears that the Board would retain jurisdiction over certain specialized types of appeals even if each department establishes an internal appeals process. Such appeals include: individual right of action appeals filed by whistleblowers who have exhausted the procedures of the Office of Special Counsel; Veterans Employment Opportunities Act appeals filed by preference eligibles who have exhausted the procedures of the Department of Labor; appeals filed under the Uniformed Services Employment and Reemployment Rights Act; and appeals of administrative decisions that affect an employee's rights or benefits under the Civil Service Retirement System or the Federal Employees Retirement System.

The increasing number of employees who will be managed under new, non-traditional human resources management systems will also affect the Board's statutory mission to conduct studies of the merit systems. The DHS and DOD human resources management authorities, like the flexibilities granted to other agencies in recent years, provide that the Title 5 provisions governing merit system principles and prohibited personnel practices may not be waived, modified, or otherwise affected. Therefore, as agency-specific merit systems spread in the Federal Government, there will be an even greater need for MSPB to conduct studies of these new management systems to ensure that they are operating in accordance with merit system principles and free from prohibited personnel practices.

The Administration has developed a proposal to expand some of the authorities granted DHS and DoD to all Federal Executive agencies. Absent this broader reform, most observers agree that other agencies will continue to seek, and perhaps obtain, the same kinds of management flexibilities that DOD, DHS, and others have already been granted. The challenge for the Board will be to preserve its role as chief protector of Federal merit systems, including those new systems being developed to meet the needs of the 21st Century civil service.

Improving internal procedures

In recent years, we restructured our field and regional offices to improve efficiency and made significant improvements in our case processing and automated appeals systems. This year, we continued to modify and improve these systems, and the use of the electronic filing capability continued to increase. In addition this year, we evaluated our petition for review process to determine how to improve the timeliness of processing appeals at this level. We adjusted our processes to reduce the inventory of PFRs. We will continue to focus on reducing the inventory of PFRs and maintaining the inventory at sustainable levels. We also began a review of our initial appeals and settlement procedures and plan to finalize this study in FY 2006. We will continue to work on ensuring that our processes and automated procedures can be effectively used by our staff to result in more effective and efficient appeals processing that will meet timeliness standards and maintain decision quality.

Retaining staff and filling Board member vacancies

We need the right people with the right skills to adjudicate appeals, conduct merit systems studies and to support those missions. We made efforts in the last year to anticipate and recruit for retiring and departing employees. We also hope to receive funds in FY 2006 to add adjudicatory and studies staff in order to meet the timeframes and study the impact of the new systems in DHS and DoD. In addition, we implemented our senior management fellows program to prepare a pool of highly skilled and trained employees to compete for senior management positions when they become vacant in the next few years. We will continue these efforts to ensure we retain the right people with the right skills to accomplish our mission.

In addition, history has shown that independent, bipartisan review of employee disputes and unbiased studies of the merit systems are necessary to ensure the health of the merit systems and to assure the public that the Federal civilian workforce works in a merit-based environment free from abuse. It is particularly important in these times of civil service transformation that a full Board of three confirmed Board members review and decide the potentially precedent-setting appeals originating from newly authorized alternative management systems. When the Board has a full complement of three members, cases at headquarters are closed by a unanimous vote or a majority vote of the Board. When the Board has only two members, there is a quorum, but no majority is possible unless both members agree. If the two members cannot agree, the Board's regulations permit the issuance of a "split-vote" order, which makes an initial decision under review final but not precedential.

On November 21, 2004, the Senate confirmed Neil A.G. McPhie as Chairman of the Board and Barbara J. Sapin as Board Member. From that date, until March 1, 2005 when Board Member Susanne Marshall retired, the Board had a full complement of three confirmed Board members. Given the importance of our merit system and the increasing number of agencies seeking to develop and implement their own merit-based systems, it is important that the Board's remaining vacancy be filled in early FY 2006.

Program Performance Report

Adjudication Performance

Summary

Strategic Goal 1: To provide fair, timely, and efficient adjudication of cases filed with the Board and to make effective use of alternative methods of dispute resolution in Board proceedings

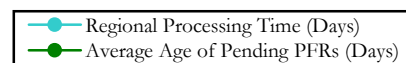
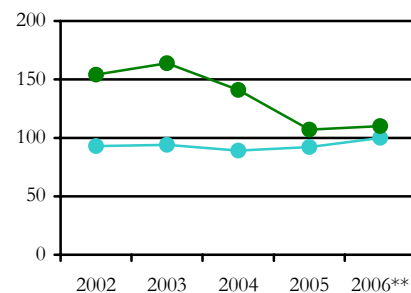
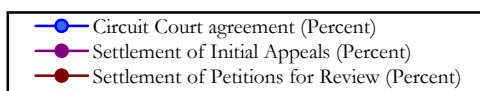
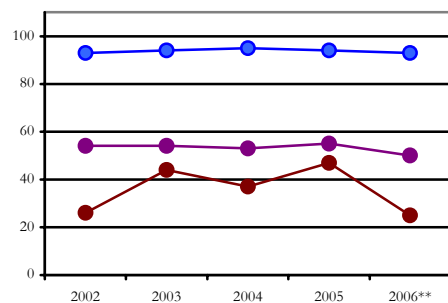
Objectives

1. Issue high quality decisions
2. Issue timely decisions at both the regional office and Board headquarters levels
3. Continue alternative dispute resolution (ADR) procedures in MSPB proceedings at both the regional office and Board headquarters levels
4. Hold increase in average case processing cost to no more than the percentage increase in operating costs, adjusted for the change in the number of decisions issued
5. Implement an integrated, streamlined electronic case processing system that allows appellants and agencies to file and receive documents electronically
6. Obtain customer input regarding the adjudicatory process

Resources

	FY 2005	FY 2006 (requested)
\$ (000)	\$31,578	\$33,030
% Resources	86	86

Selected Results (** Target goal)



Performance Goals and Results

Objective 1: Issue high quality decisions

Performance Goal 1.1.1 - Maintain/reduce low percentage of cases decided by the Board on petition for review (PFR) that are reversed and/or remanded to MSPB judges for a new decision

Results		Targets	
FY 2002	8 %	FY 2005	10 % or less
FY 2003	11 %	FY 2006	10 % or less
FY 2004	6 %		
FY 2005	7 %		

This Goal was MET. The results achieved were below the target level. Results vary from year to year, therefore the target remains 10% for FY 2006.

Performance Goal 1.1.2 - Maintain/reduce low percentage of proposed decisions submitted by headquarters legal offices to the Board that are returned for rewrite

Results		Targets	
FY 2002	8 %	FY 2005	12 % or less
FY 2003	6 %	FY 2006	10 % or less
FY 2004	3 %		
FY 2005	3 %		

This Goal was EXCEEDED. The results achieved were significantly below the target level. The FY 2006 target was adjusted from 12% to 10% to account for our success in meeting this Goal and still allow for potential rewrites for DHS and DoD cases.

Performance Goal 1.1.3 - Maintain high percentage of Board decisions unchanged on review by the U.S. Court of Appeals for the Federal Circuit (Court dismisses case or affirms Board decision)

Results		Targets	
FY 2002	93 %	FY 2005	93 % or greater
FY 2003	94 %	FY 2006	93 % or greater
FY 2004	95 %		
FY 2005	94 %		

This Goal was MET. The results achieved were above the target level. The results vary from year to year, therefore the target for FY 2006 remains 93% or greater.

Objective 2: Issue timely decisions at both the regional office and Board headquarters levels

Performance Goal 1.2.1 - Maintain average case processing time for initial decisions issued in regional offices

Results		Target	
FY 2002	96 days	FY 2005	100 days or less
FY 2003	94 days	FY 2006	100 days or less
FY 2004	89 days		
FY 2005	92 days		

This Goal was MET. Though processing time increased slightly from the previous year, the results were below the target level. The target for FY 2006 remains at 100 days assuming relative stability in case receipts and regional office staffing.

Performance Goal 1.2.2 - Reduce average age of pending PFRs at Board headquarters

Results		Target	
FY 2002	154 days	FY 2005	160 days or less
FY 2003	164 days	FY 2006	110 days or less
FY 2004	141 days		
FY 2005	107 days		

This Goal was EXCEEDED. The average age of pending PFRs is the lowest it has been in five years, reduced by 24% from the actual results for FY 2004, and 33% lower than our FY 2005 target. The FY 2006 target for this Performance Goal was adjusted from 160 days to 110 days to reflect our success in reducing the average age of PFRs and to reflect our focus on improving the timeliness of processing headquarters cases.

Performance Goal 1.2.3 - Reduce and maintain the number of PFR cases pending at headquarters

Results		Targets	
FY 2002	N/A new goal in FY 2006	FY 2005	N/A new goal in FY 2006
FY 2003	N/A new goal in FY 2006	FY 2006	400 or fewer
FY 2004	N/A new goal in FY 2006		
FY 2005	N/A new goal in FY 2006		

This Performance Goal will be added in FY 2006 to reflect our focus on reducing the inventory of cases at headquarters. Though we did not officially track this Goal for FY 2005, our data indicate that the number of pending PFR cases went from 981 in October of 2004 to 526 in September of 2005, a reduction of 455 cases or 46 percent.

Objective 2: (continued)

Performance Goal 1.2.4 - Reduce number of cases pending at headquarters for more than 300 days

Results		Targets	
FY 2002	61 cases	FY 2005	46 or fewer
FY 2003	73 cases	FY 2006	35 or fewer
FY 2004	33 cases		
FY 2005	21 cases		

This Goal was EXCEEDED. The results for this Goal were 54% less than the target level. To further emphasize our focus on headquarters case processing, we changed the FY 2006 target for this goal from 46 cases to 35 cases. This Performance Goal was renumbered from 1.2.3 to 1.2.4 because of the new goal to reduce the inventory of cases at headquarters.

Performance Goal 1.2.5 - Continue initiative to improve case processing timeliness at the regional and headquarters levels by streamlining adjudicatory regulations and internal procedural guidance

Results

FY 2002 N/A (new goal in FY 2004)
FY 2003 Reviewed adjudicatory regulations to determine where case processing could be streamlined; final regulations published in *Federal Register* on September 18, 2003; added a FY 2004 goal to continue this initiative
FY 2004 Completed a draft outline of HQ case processing procedures (i.e., a comprehensive electronic HQ Handbook similar to the AJ Handbook) as a reference, briefing and orientation document with completion scheduled for FY 2005; reviewed comments received on the Board's interim streamlining regulations and drafted separate regulations to conform with the proposed DHS regulations published on 2/20/04; began tracking select cases to be automatically refiled and began recording hearings on compact digital (CD) media to improve timeliness and efficiency; established a uniform procedure for processing incomplete appeals
FY 2005 Submitted draft changes to MSPB regulations (5 C.F.R. Part 1210) to the Board for approval; continued to monitor DoD's progress on its regulations to prepare for any necessary updates to MSPB regulations; began developing and implementing changes to internal automated case and document management systems to ensure we are ready to receive and manage those cases in accord with new regulations; continued to share best practices for case processing among the regions and encourage video conference hearings to improve efficiency; successfully hosted the first Special Panel in 13 years during which the MSPB Chairman, Chair of EEOC, and Chairman of the special panel heard and decided a significant case; drafted revised paper and electronic appeal form; conducted internal evaluation of the petition for review process and made changes to streamline and improve the timeliness of processing appeals at headquarters.

Targets

FY 2005 Draft regulations to process DHS cases after interim DHS regulations are issued; evaluate current MSPB regulations and further streamline the appeals process for non-DHS appeals where possible
FY 2006 Issue final MSPB regulations for DHS appeals and interim and final regulations for DoD appeals; continue to assess internal MSPB procedures and other means to streamline and expedite appeals

This Goal was MET. We continued to assess and update our regulations and internal procedures in order to improve our effectiveness and efficiency and ensure we can meet the requirements established by new agency-specific appeals procedures. For FY 2006, the wording of this Performance Goal was adjusted to be more general so that we can use a wider range of strategies to improve adjudication timeliness at both the regional and headquarters levels. The number for this Performance Goal was changed from 1.2.4 to 1.2.5 because of the addition of new goal 1.2.3.

Objective 3: Continue alternative dispute resolution (ADR) procedures in MSPB proceedings at both the regional office and Board headquarters levels

Performance Goal 1.3.1 - Maintain rate of settlement of appeals that are not dismissed at 50 % or higher

Results		Targets	
FY 2002	54 %	FY 2005	50 % or higher
FY 2003	54 %	FY 2006	50 % or higher
FY 2004	53 %		
FY 2005	55 %		

This Goal was MET. The actual results were above the target level. Because these results fall within the expected range, the target for FY 2006 remains set at 50% or higher.

Performance Goal 1.3.2 - Maintain rate of settlement of cases selected for the PFR Settlement Program at 25 % or higher

Results		Targets	
FY 2002	26 %	FY 2005	25 % or higher
FY 2003	44 %	FY 2006	35 % or higher
FY 2004	37 %		
FY 2005	47 %		

The Goal was EXCEEDED. The settlement rate for PFR cases increased from the previous year due to continued improvements in the screening process for selecting cases to be settled and the availability of highly expert MSPB settlement mediators. We have adjusted the FY 2006 target for this Goal to reflect our consistent success with settlements at this level.

Objective 3: (continued)

Performance Goal 1.3.3 – Implement pilot program to test use of mediation in resolving appeals

Results

FY 2002 Worked with contractor to develop Mediation Appeals Project; selected and trained mediators who conducted co-mediations with contractor

FY 2003 Trained 15 mediators; 50 percent of completed co-mediations resulted in settlement of the appeal; responsibility for MAP transferred to Regional Directors of Atlanta RO and Central, RO; initial evaluation of MAP completed

FY 2004 Made the MAP permanent and developed final procedures, notices and orders, etc; assigned the large number of trained mediators in the Washington area in a cost-effective way; trained additional mediators; expanded the program to the Northeastern Region; successfully mediated a total of 23 cases

FY 2005 Expanded MAP to all regional and field offices; completed MAP training in all field and regional offices; developed a mediation pamphlet to accompany the Acknowledgement Order in approximately half of the new appeals; began updating instructions, processing guidelines and selection criteria for new mediators; worked to incorporate standard MAP forms into HOTDOCS; 105 cases received for MAP of which 83 mediations were completed—two and one half times more than were completed last year; 8 mediations were cancelled, 40 of the 83 cases settled for a success rate of 48%

Targets

FY 2005 Continue the MAP with a target to increase the number of appeals 5 - 10 % over the 23 mediated in FY 2004; expand mediation program to include all regional and field offices

FY 2006 Continue successful use of the MAP to increase the number of appeals mediated 5 -10% over the number mediated in FY 2005 with a success rate of 50% or higher; determine how best to apply the program in a variety of different personnel systems

This Goal was EXCEEDED. We mediated more than two and one half times the number of appeals mediated in FY 2004 with a success rate of 48%. The FY 2006 numeric targets include an increase of 5-10% in the number of appeals mediated in FY 2005 (a numeric target of 87 – 91 cases) with a success rate of 50%. In FY 2006, we will also determine how to apply the MAP to cases from various personnel systems. In addition, the wording of this Performance Goal was changed to reflect that the MAP was made permanent.

Objective 4: Hold increase in average case processing cost to no more than the percentage increase in operating costs, adjusted for the change in the number of decisions issued

Performance Goal 1.4.1 - Hold increase in overall average case processing cost to no more than the percentage increase in operating costs, adjusted for the changes in the number of decisions issued

Results

FY 2002	\$2,821 (Adjusted)
FY 2003	\$2,731 (Adjusted)
FY 2004	\$2,701 (Adjusted)
FY 2005	\$2,793 (Adjusted)

Targets

FY 2005	\$2,701 adjusted for the changes in the number of decisions issued
FY 2006	\$2,793 adjusted for the changes in the number of decisions issued; assess various cost measures and benchmarks that permit costs to be managed prospectively throughout the year

This Goal was MET. The average case processing cost is within the range of values from the last few years. In FY 2006 we will assess various cost measures that would allow prospective management of cost throughout the year.

Objective 5: Implement an integrated, streamlined electronic case processing system that allows appellants and agencies to file and receive documents electronically

Performance Goal 1.5.1 - Develop integrated electronic case processing system that offers electronic access to customers as required by the Government Paperwork Elimination Act (GPEA) and streamlines internal case processing in accordance with MSPB's long-term Strategic IT Plan

Results

FY 2002 Continued development and testing of CMS; revised Appeals form and wrote the statement of work to create Appeal Forms Package

FY 2003 Signed new fixed-price contract for completion of Law Manager; developed and launched e-Appeal; published electronic filing regulations in *Federal Register* to meet GPEA deadline of Oct. 21, 2003

FY 2004 Successfully implemented the new case management system (CMS/LM which uses Law Manager software) in February; tracking of Law Manager improvement projects is ongoing; about 1000 appeals were submitted using procedures established in phase I of e-Appeal; e-Appeal Phase II including additional filings by parties and electronic publishing of MSPB orders and decisions through electronic distribution directly to the parties was implemented in September

FY 2005 Continued to improve our electronic case processing (LM/CMS) and e-Appeal systems including minimizing manual data entry, eliminating steps between e-Appeal and LM, and developing specifications for additional modules in e-Appeal to enable e-filing identification and add new DHS deadlines; implemented "My Cases," an electronic case file process allowing Board members to take electronic case documents on travel for review and decision issuance; established the e-Appeal Phase III pilot project to improve handling of e-filing attachments and expand methods for collection of documents electronically through e-faxing and scanning; surveyed users of the document management system (DMS) and recommended operational changes to improve efficiency

Targets

FY 2005 Continue to enhance all components of the electronic case processing system as MSPB requirements change and technology improves; establish a pilot project with a select group of agencies for submitting agency appeal documents in electronic form

FY 2006 Continue to enhance electronic case processing system; streamline the process of electronic document submission (e.g., large agency files) to improve efficiency; begin working with agencies to develop pilots within their agencies to streamline their processes

This Goal was MET. We continue to improve our automated case processing system to make it more efficient and effective and improve our e-Appeal systems to make it easier for individuals to file appeals and for parties to send and receive documents to MSPB. Over 1300 parties have elected to be e-filers through e-Appeal; over 1600 appeals and 2200 pleadings have been filed and over 5700 documents have been disseminated over e-Appeal. The FY 2006 targets for this Performance Goal have been updated to reflect recent updates to our automated case management processes and our continuing efforts to assess and address system development needs as they arise.

Objective 6: Obtain customer input regarding the adjudicatory process

Performance Goal 1.6.1 - Continue to evaluate and implement, as appropriate, suggestions received from customer surveys and informal feedback regarding the adjudicatory process

Results

FY 2002 Conducted survey of customers of new video explaining MSPB appeals process; report on findings prepared by OPE and reviewed by ORO

FY 2003 ORO and regional/field office staff received and discussed feedback from outreach events, Federal Executive Boards, Small Agency Council, and bar organizations; practitioners made presentations and responded to questions at legal conference; “best practices” session held at legal conference; ORO continued developing “best practices” guidance

FY 2004 Received many, mostly favorable comments regarding the e-Appeal system implemented in October 2003; developed and electronically administered a survey of agency representatives in the adjudicatory process with a response rate of 49%; analyzed survey data and provided recommendations in a final report; began implementing suggestions as appropriate; began plans to expand such surveys to other adjudicatory customers and to collect data on the settlement process

FY 2005 Significant progress was made toward implementing procedures for internal and external participants to provide feedback on the outcomes and processes for initial appeals and settlements; we continued to receive routine feedback from customers and during outreach events and receive feedback from e-Appeal customers through the automated feedback system within e-Appeal

Targets

FY 2005 Continue to conduct customer surveys and obtain informal feedback; implement suggestions as appropriate

FY 2006 Continue to implement procedures to gather routine customer feedback from adjudicatory customers and implement customer suggestions for improvement; complete an internal study of initial appeals and settlements

This Goal was MET. We made significant progress on a study of initial appeals and settlement procedures including procedures to gather informal feedback on these processes from internal and external customers. The FY 2006 target reflects our plan to complete this study of initial appeals and settlements processes.

Merit Systems Studies Performance

Summary

Strategic Goal 2: To support strong and viable merit systems that ensure the public's interest in a high quality, professional workforce managed under the merit principles and free from prohibited personnel practices

Objectives

1. Assess and support effective and efficient merit systems and human capital management laws, regulations and policies and provide information for improvements and corrections to policymakers
2. Support effective and efficient implementation and practice of human capital management laws, regulations and policies that ensure the workforce is managed under the merit system and free from prohibited personnel practices

Resources

	FY 2005	FY 2006 (requested)
\$ (000)	\$1,422	\$1,768
% Resources	4	5

Selected Results

Significant Recommendations

Reduce HR rules and prescriptive procedures and increase flexibility
Replace "Rule of 3" with categorical grouping
Improve assessment and selection practices
Reassess need for outstanding scholar program

Select recent studies

Making the Public Service Work: Recommendations for Change
Perspectives – The Federal Selection Interview: Unrealized Potential
Help Wanted: A Review of Federal Vacancy Announcements
The Federal Workforce for the 21st Century: Results of the Merit Principles Survey 2000
What's on the Minds of Federal Human Capital Stakeholders?
Identifying Talent through Technology: Automated Hiring Systems in Federal Agencies
Managing Federal Recruitment: Issues, Insights, and Illustrations
Merit Systems Protection Board Annual Report FY 2004
Internal Review: The PFR Process
Probationary Period: A Critical Assessment Opportunity
Building a High-Quality Workforce: The Federal Career Intern Program
Reference Checking in Federal Hiring: Making the Call

Performance Goals and Results

Objective 1: Assess and support effective and efficient merit systems and human capital management laws, regulations and policies and provide information for improvements and corrections to policymakers

Performance Goal 2.1.1 - Evaluate the impact of studies, newsletters and other products through feedback from stakeholder surveys, tracking use of recommendations or references in studies, policy papers, professional literature, legislation and the media

Results

FY 2002 Customer satisfaction survey results and research citations indicated substantial positive impact; sent selected reports and summary report to Volcker Commission on civil service reform

FY 2003 Received numerous references to and favorable reviews of reports; OPE staff made several invited presentations; vacancy announcement study used in testimony before Congress; QuickHire requested permission to reprint report on vacancy announcements at their expense; MSPB reports contributed to enactment of legislation allowing agencies to use category rating instead of “rule of three”

FY 2004 Conducted a customer satisfaction survey of stakeholders of the Board’s merit systems studies and newsletters with results indicating that respondents continue to hold publications in high regard; continued to track the impact of studies on human resources management and merit systems policies and on the practice of merit in the workplace; reviewed possible measures of impact and identified several measures to be pilot tested

FY 2005 Reviewed alternative measures of impact of studies and began pilot test using customer survey card inserts in reports and began review of current vacancy announcements to assess the impact of Vacancy Announcement report.

Targets

FY 2005 Pilot test alternative measures for evaluating impact of studies

FY 2006 Continue to track and evaluate traditional and alternative measures of the impact of our studies and newsletters

This Goal was MET. In FY 2006, we will continue to evaluate and track traditional and alternative measures of impact of studies.

Objective 1: (continued)

Performance Goal 2.1.2 - Conduct studies of merit systems and human resources management matters in the Federal Government and issue reports of findings and recommendations for action, where appropriate

Results

FY 2002 Conducted merit systems studies, issued 4 reports and 4 editions of newsletter; responded to requests for data, advisory assistance and information

FY 2003 Conducted merit systems studies, issued 3 reports and 3 editions of newsletter; developed comprehensive research agenda; conducted less intensive studies on various topics; made presentations to the Department of Homeland Security HR design team; established regular transmissions from OPM's Central Personnel Data File (CPDF); strengthened collaboration with other research organizations

FY 2004 Reviewed and adjusted research agenda; completed six reports including topics such as what is on the minds of Federal HR stakeholders, automated staffing, recruitment, the MSPB FY 2003 Annual Report, the Board's regional and field office staffing, and the studies customer satisfaction survey; also published the MSPB Strategic Plan for FY 2004 - FY 2009 and the PAR for FY 2003; three other study reports are under review; released four newsletter issues including one celebrating the Board's first 25 years; continued to formalize collaborative relationships with other research organizations

FY 2005 Published 2 internal reports on the PFR process and HR customer satisfaction, and four external reports including the FY 2004 Annual Report and reports on the probationary period, the Federal career intern program, and reference checks; published the PAR for FY 2004 within the new 45 day timeline; completed two other merit systems reports that were in final review at the end of the fiscal year; published four issues of the newsletter; increased focus on internal Board and adjudication issues by completing important studies of the PFR process and HR customer satisfaction and by making significant progress on an internal study of the initial appeals and settlements processes

Targets

FY 2005 Publish at least 6 reports and a quarterly newsletter; increase focus on internal Board and adjudication issues

FY 2006 Conduct studies, publish 6 reports and 4 issues of the newsletters; continue to focus on studies of internal Board and adjudication issues to help the Board meet the challenges of the new personnel systems

This Goal was MET. We published 7 reports and completed 2 additional reports that were in final review at the end of the year. We increased our focus on internal Board issues by completing two significant internal studies on the PFR process and HR customer service and by making progress on an important study of the initial appeals and settlement processes. In FY 2006, we will continue our focus on internal Board and adjudication issues to help meet the challenges of new personnel systems.

Objective 1: (continued)

Performance Goal 2.1.3 - Periodically review the actions of OPM and other agencies with authority to develop human resources regulations and policies to assess the impact of those actions on merit systems and human capital management

Results

FY 2002 N/A new goal in FY 2004
FY 2003 N/A new goal in FY 2004
FY 2004 Consulted with the DHS and OPM concerning the development of new employee appeal system regulations for DHS and provided formal comments on the initial regulations issued by DHS; participated in the Department of Defense (DOD) policy and guidance committee resulting in different draft implementation plans for the DOD Personnel Systems; consulted with DOD and OPM on the design of DOD's new appeals system with consultation expected to continue in FY 2005; identified quantitative and qualitative information about program operation in DHS and DOD to be used to assess the effect of revised civil service authorities and policies at a future time
FY 2005 Participated in consultations regarding proposed DHS and DoD regulations; monitored developments on DHS final regulations and DoD proposed regulations; collected relevant information so the Board will be prepared to assess the impact of the new regulations and policies.

Targets

FY 2005 Initiate assessment of new regulations and policies in selected agencies
FY 2006 Continue assessment of new merit systems regulations; analyze data from the Civilian Personnel Data File and from our own Merit Principles Survey; conduct other assessments such as focus groups, interviews, symposiums, and like interventions

This Goal was MET. In FY 2006, the target for this goal has been adjusted to reflect the approaches we will use to look at the impact of policies and regulations.

Objective 1: (Continued)

Performance Goal 2.1.4 - Ensure that reports of studies are made widely available, particularly to target audiences, and disseminate findings through such means as personal appearances, personal contacts, publication of articles by OPE staff, and collaboration with other research organizations to increase impact of studies

Results

FY 2002 100,000 copies of reports and newsletters distributed in printed form and downloaded from the MSPB website; 500 subscribers to Studies list serve since its implementation early in FY 2002; 23 formal presentations made to groups including the Federal Executive Boards (FEBs) in Chicago, Denver, and San Antonio

FY 2003 Continued outreach targeted to FEBs and associations of managers; 30 formal presentations made to groups representing a wide range of stakeholders; worked with OCB to redesign Studies page on MSPB website; increased the number of organizations and news services that include links to MSPB website on their websites

FY 2004 Continued outreach efforts for our merit system studies and reports targeted to management groups; made more than 25 presentations to a variety of groups ranging from Federal Executive Boards (FEBs) around the country to union conferences to SES level audiences at department level; continued to improve the studies section of the MSPB website; added members of the Personnel Testing Council to the mailing lists for studies and newsletters; recorded more than 200,000 downloads of MSPB reports and newsletters from the website

FY 2005 Met with civil service officials in Canada and Thailand resulting in the establishments of a Thai MSPB; hosted visitors from Thailand, Japan, China, Belgium, and Vietnam; presented at conferences in Ireland and Hungary; served on the United Nations expert working group on public sector performance; co-sponsored a symposium on pay-for performance with GAO, OPM and NAPA; made more than 24 presentations on study results to groups of managers and Federal Executives; recorded over 200,000 downloads of reports and newsletters from our website, made over 1750 outreach contacts

Targets

FY 2005 Continue expanded emphasis and presence with management groups and other change leaders

FY 2006 Continue to enhance the MSPB reputation and therefore the impact of the study findings; utilize the press and other media in a more formal sense to expand coverage of MSPB study products; continue organized outreach efforts focused on managers and field organizations such as the Federal Executive Boards; continue efforts to share reports and newsletters electronically; participate in professional meetings and conferences

This Goal was EXCEEDED. Our outreach efforts for FY 2005 included international exchanges promoting continued world-wide improvement in merit-based public management as well as a continued focus on management groups. In FY 2006, we will focus on enhancing MSPB's reputation and the impact of our studies, and expanding coverage of MSPB study products.

Objective 2: Support effective and efficient implementation and practice of human capital management laws, regulations and policies that ensure the workforce is managed under the merit system and free from prohibited personnel practices

Performance Goal 2.2.1 - Conduct periodic Merit Principles Surveys, including questions intended to determine whether agencies adhere to the merit system principles and the extent to which prohibited personnel practices occur in the workplace, and report findings

Results

FY 2002 Prepared report on 2000 Merit Principles Survey

FY 2003 Began work on next Merit Principles Survey to be conducted electronically using web-based technology; finalized contract to conduct the web-based survey; postponed conducting survey and analyzing and evaluating results until FY 2004

FY 2004 Completed preparations for the next Merit Principles Survey, however administration of the survey was delayed until at least the first quarter of FY 2005 to avoid overlap with OPM's Human Capital Survey; fully coordinated survey issues with OPM and OPM agreed to assist us in the capture of email addresses for our survey sample

FY 2005 Successfully completed largest ever and first electronic web-based MPS distributed to 80,000 employees; used this automated capability to refine questions and provide agency CHCOs the option to use the MPS to meet their FY 2005 statutory survey requirement; similar options have been built into OPM's implementing guidance for the survey requirement

Targets

FY 2005 Conduct the 2005 Merit Principles Survey (delayed from FY 2004); prepare questions and refine processes for automated MPSs and coordinate with OPM's Governmentwide surveys

FY 2006 Analyze and report findings from the FY 2005 Merit Principles Survey; begin further data collection within DHS and DoD to monitor the impact of personnel changes, continue to assess the practice of merit and prohibited personnel practices

This Goal was MET. The FY 2005 MPS was the largest ever and first electronic MPS survey presented to over 80,000 Federal employees. The successful administration of this survey achieved a response rate of over 50% and will provide essential benchmark data for comparing the new merit systems in DHS and DoD with the traditional system. In addition, our preparations for the MPS allowed us to provide agencies with an effective and efficient option to meet the FY 2005 statutory requirement to conduct their own survey of their employees in odd years. This option led to the easing of the requirement for agencies to conduct their own survey until FY 2007. The FY 2006 target for this Goal has been reworded to include further data collection to monitor the impact of personnel changes within DHS and DoD.

Objective 2: (continued)

Performance Goal 2.2.2 - Conduct studies of one or more agency alternative personnel management systems or processes and their impact on human capital management, merit principles, and prohibited personnel practices

Results

FY 2002 N/A (new goal in FY 2004)
FY 2003 N/A (new goal in FY 2004)
FY 2004 Collected quantitative and qualitative baseline information on the DHS and DOD (or the predecessor organizations) including 2002 OPM Human Capital Survey data, our 1996 and 2000 Merit Principle Survey data and CPDF data; developed several questions to be included in the FY 2005 and future merit principle surveys to capture employee attitudes before and after system implementation; scheduled FY 2005 MPS to capture data prior to implementation
FY 2005 Collected information on alternative human resources systems from CPDF and the 2005 MPS; collected information about other public management systems including state merit systems and other Federal level systems to contrast and compare with ongoing changes in Federal Executive agency human resources management policies.

Targets

FY 2005 Expand data collection on alternative systems; assess operation of merit in traditional and alternative systems
FY 2006 Assess and report on initial findings about the alternative personnel systems used in DHS and/or DOD and their impact on merit (reports counted under goal 2.1.2); collect additional data through varied alternate sources such as focus groups and work collaboration with DHS and DoD and OPM to analyze findings from various sources

This Goal was MET. We expanded our data collection efforts on other Federal alternative systems and collected comparative information on other public merit systems such as those used in the individual states. The FY 2006 target also includes collection of additional data through varied sources such as focus groups and DHS/DoD/OPM collaboration.

Management Support Performance

Summary

Strategic Goal 3: To strategically manage the MSPB's human capital and strengthen its internal systems and processes to support a continually improving, highly effective and efficient organization

Objectives

1. Attract, develop, and retain the diverse and highly motivated workforce needed to effectively and efficiently accomplish the MSPB mission
2. Leverage human resources strategies, policies and services for optimal individual and organizational performance
3. Implement effective workforce analysis and planning to meet evolving mission needs and technological advances
4. Maintain electronic access to and dissemination of MSPB information, explore application of governmentwide e-Government initiatives to MSPB operations, and ensure compliance with statutory e-Government requirements
5. Maintain information security sufficient to safeguard agency information and assets from compromise and to ensure the highest possible availability of information services to customers

Resources

	FY 2005	FY 2006 (requested)
\$ (000)	\$3,739	\$3,407
% Resources	10	9

Performance Goals and Results

Objective 1: Attract, develop, and retain the diverse and highly motivated workforce needed to effectively and efficiently accomplish the MSPB mission

Performance Goal 3.1.1 - Strengthen employee and management development programs and increase opportunities for MSPB employees

Results

FY 2002 5 employees sent to OPM's Management Development Centers and 2 employees sent to FEI; employees detailed to Board members, ORO, and OCB

FY 2003 Core and advanced curriculums were developed for paralegals; collaborated with NAPA on study of training for supervisors and managers; updated IDPs to reflect current training needs

FY 2004 Developed and taught a course to our paralegal employees; provided training in accordance with employee IDPs from a variety of organizations; provided developmental details to the Acting Chairman's or Member's offices for four employees; provided management training to several employees from a variety of agency offices; continued informal mentoring of employees within offices and proposed a formal mentoring policy as part of a talent investment program

FY 2005 Launched MSPB Senior Management Fellows Program (SMFP) targeted to GS-14 and GS-15 employees—a talent investment program designed to expand our efforts to develop and retain critical skills; provided developmental assignments and details to various Board offices for several attorneys; explored alternatives for SES candidate development programs and developed competency-based succession management plan for the agency and provided it to senior staff for comment; incorporated full supervisory responsibilities into CAJ position; successfully conducted the largest MSPB legal conference attended by 165 MSPB employees that included legal and paralegal training, updates on DHS and DoD personnel changes and a presentation by the Comptroller General of the United States

Targets

FY 2005 Develop a talent investment program with related guidance documents that support expanded efforts to develop and retain critical skills; continue to use developmental positions for attorneys; explore alternatives for SES candidate development programs; revise chief AJ position to assign full supervisory responsibilities; develop a 2005 legal conference; continue emphasis on paralegal training opportunities

FY 2006 Develop automated database of employee skills and development needs; develop an employee orientation program; assess type and adequacy of resources for administering employee training and development to support mission requirements and succession planning; assess alternative ways to publish employee training and development opportunities; identify and publicize incentives or features of employment to attract applicants and maintain employees; mentor and monitor progress of Senior Management Fellows Program candidates and provide assistance as needed; begin planning for next MSPB legal conference

This Goal was MET. We continue to invest in our employees with six employees receiving management training and 38 attorneys and other legal staff attending various legal training opportunities. In addition, MSPB's results from the FY 2004 Human Capital Survey indicated that a vast majority of MSPB employees believed their training needs were met. We also began developing a database for tracking employee training (part of an FY 2006 initiative). Our FY 2006 targets have been updated to reflect our focus on employee orientation, training resources and opportunities, monitoring our Senior Fellows program, and preparing for the next legal conference.

Objective 2: Leverage human resources strategies, policies, and services to result in optimum individual and organizational performance

Performance Goal 3.2.1 - Leverage use of technology to support human resources management programs

Results

FY 2002 N/A (new goal in FY 2004)
FY 2003 N/A (new goal in FY 2004)
FY 2004 Began development of automated assessment tools to use in filling administrative judge and senior merit systems analyst positions; provided individual managers informal guidance on position management and classification through one-on-one sessions; enhanced the MSPB intraWeb to provide connection from work and from home and more links to internal MSPB operational systems and external sources of HR and employee service information; "Frequently asked questions" regarding the MSPB reorganization and employee relocations were posted on the intraWeb making them readily available to affected employees
FY 2005 Used automated assessment systems to assist in filling analyst positions for merit systems studies and are evaluating the experience with the system for expansion to other vacancies; made the automated retirement calculator available through the HR website; increased use of NFC database to identify indicators for tracking workforce trends, support the MSPB's Human Capital Plan and workforce planning, and track SES salaries and awards; conducted automated HR customer service survey to assess current customer satisfaction and determine areas for improvement

Targets

FY 2005 Consider implementing automated hiring systems; consider adding automated retirement calculator and employee development modules; improve interface with Human Resources Information System
FY 2006 Explore OPM's line of business (LOB) initiative for shared service centers for HR transactional work; pursue conversion of paper official personnel folders (OPF) to electronic version (e-OPF); assess OPM's business intelligence tool and workforce analysis system for use at MSPB

This Goal was MET. We accomplished the FY 2005 initiatives under this Goal and began some FY 2006 activities by exploring implementation requirements for e-Government initiatives including Enterprise Human Resources Integration (EHRI), e-OPF (electronic personnel folder), and considering other e-Gov initiatives offered by OPM. We will continue these initiatives in FY 2006.

Objective 2: (Continued)

Performance Goal 3.2.2 - Enhance quality of human resources customer service

Results

FY 2002 N/A (new goal in FY 2004)
FY 2003 N/A (new goal in FY 2004)
FY 2004 Conducted site visits to counsel affected employees on retirement and relocation options at two offices closed because of regional reorganization; conducted periodic meetings with MSPB managers and identified classifying and filling of jobs as high priority
FY 2005 Made improvements to the HR webpage; drafted customer service responsiveness standards and a customer service comment card for the web page; administered an automated HR customer service survey to internal MSPB HR customers, and obtained MSPB results from the OPM Human Capital Survey; began assessing results from these surveys to inform future improvements in HR services.

Targets

FY 2005 Continue implementing recommendations and improvements to customer service
FY 2006 Implement recommendations to improve customer service from the FY 2005 HR customer survey; explore alternative sourcing of HR services (goal 3.3.2) to improve customer satisfaction; use additional customer surveys or other forms of feedback to assess and improve services to employees and managers as necessary

This Goal was MET. We continued our efforts to improve HR customer service and completed a customer service survey of all HR customers. In FY 2006, we will continue to assess the survey results and other forms of feedback and implement recommendations as appropriate.

Objective 2: (continued)

Performance Goal 3.2.3 - Revise human resources policies and agency organization and structure as appropriate to align with evolving mission requirements

Results

FY 2002 N/A (new goal in FY 2004)
FY 2003 N/A (new goal in FY 2004)
FY 2004 Developed and proposed human resources policies for initiatives including category ranking, student loan repayment, mentoring, veteran's preference and EEO; drafted and submitted to the Chairman an employee handbook on standards of conduct, grievance procedures and ethics; revised and submitted the SES performance management system to OPM for approval; sought and received additional HR flexibilities on VERA and VSIP; successfully reorganized the regional office structure including closure of two field offices with no involuntary separations; studied regional office structure and recommended changes
FY 2005 Drafted initial strategic human capital plan and began reviewing the plan based on results from our surveys; updated, approved and implemented policies on Veteran's preference, category rating, and compensatory time for travel; completing our 2nd year under provisional certification of our SES appraisal system; reviewed and adjusted position sensitivity and security clearance designations to prepare for classified DHS and DoD cases; implemented recommendations from the field structure study to enhance CAJ positions; realigned HR functions with FAM

Targets

FY 2005 Formalize strategic human capital plan; continue to implement, improve and formalize human resources flexibilities and policies; implement suggestions from the field structure study completed in FY 2004
FY 2006 Continue to develop and implement human resources flexibilities and policies to maintain and improve HR and organizational effectiveness and efficiency; partner with senior staff to assess and redefine HR priorities and strategic goals and finalize the strategic human capital plan; identify HR program areas/functions where roles and responsibilities need to be clarified to avoid duplication of work with other Board offices; identify and eliminate existing policies and procedures that add no value and pursue initiatives that add flexibility and value; review HR portions of the delegations handbook

This Goal was MET. We accomplished our targets for this goal including continuing implementation of our SES appraisal system. In addition, we updated our personnel security designations in preparations for receiving cases involving classified material. In FY 2006, we will focus on our overall efforts to assess HR priorities and strategic goals, HR roles, responsibilities and delegations, and HR policies and procedures to improve HR program effectiveness, efficiency and flexibility.

Objective 3: Implement effective workforce analysis and planning to meet evolving mission needs and technological advances

Performance Goal 3.3.1 - Develop agency-wide recruitment strategies to ensure MSPB hires from a variety of sources to ensure a diverse, highly qualified workforce

Results

FY 2002 N/A (new goal in FY 2003)
FY 2003 Opportunities for lateral transfers resulted in movement of AJs between field locations and movement of employees in headquarters; conducted job analyses of and created structured interviews for administrative judge (AJ) positions; began exploring use of automated systems for recruitment, including application and rating processes
FY 2004 Identified sources to expand candidate pools and targeted recruitment at these sources for attorney, paralegal and information technology positions at headquarters and in the field; targeted recruiting efforts continue for vacancies as they occur
FY 2005 Developed and coordinated policies for the potential use of recruitment, retention and relocation incentives; ensured that all vacancies are recruited from all sources and targeted to additional minority educational institutions.

Targets

FY 2005 Consider making broader use of human resources flexibilities such as recruitment and retention bonuses; increase managerial involvement in targeted recruitment outreach
FY 2006 Target specific sources of recruitment such as universities to maintain and improve diversity and obtain skills to meet the evolving needs of the agency

This Goal was MET. We successfully accomplished the FY 2005 targets for this goal. In FY 2006, we will continue to target our recruiting efforts to improve the diversity of our staff and obtain the skills we need to accomplish our agency goals.

Objective 3: (Continued)

Performance Goal 3.3.2 - Analyze alternative sources for accomplishing the agency's work

Results

FY 2002 N/A (new goal in FY 2004)
FY 2003 N/A (new goal in FY 2004)
FY 2004 Identified future HR skills needed including assistance in classifying and filling positions; identification of further skills needed depends on the final design of new appeals systems in DHS, DOD and other organizations; initiated efforts to find alternative sources for HR services; continued to coordinate sourcing decisions with MSPB's strategic human capital needs
FY 2005 Updating workforce planning documents in conjunction with our work on the strategic human capital plan (Goal 3.2.3); continued to explore alternative sources and methods for accomplishing the agency's work by reviewing HR program practices and needs and requesting one additional agency HR position: used intra-agency work groups for several policy and technology projects

Targets

FY 2005 Update workforce planning documents; continue to explore viability of alternative sources for conducting the agency's work
FY 2006 Review and update the current HR services contract; assess the status and timeline of OPM's initiative on shared HR service centers and the impact on MSPB's transactional HR work; identify alternatives to how work is performed to increase efficiency

This Goal was MET. We achieved our FY 2005 targets for this Goal. In FY 2006, we will focus not on finalizing assessments of alternative sources for HR services nor on implementation of new sourcing plans because we want to consider OPM's continued assessments of HR service providers and complete our strategic review of all HR programs. In FY 2006, we will review and update our current HR services contract, track OPM's efforts and identify ways to improve efficiency.

Objective 4: Maintain electronic access to and dissemination of MSPB information, explore application of Governmentwide e-Government initiatives to MSPB operations, and ensure compliance with statutory e-Government requirements

Performance Goal 3.4.1 - Continue to make MSPB information available on the MSPB website and enhance the website as needed; continue to provide information to customers in electronic form when requested; determine where internal processes can be improved through application of Governmentwide e-Government initiatives; comply with E-Government Act of 2002 and related e-Government requirements

Results

FY 2002 Completed adding key precedential Board decisions to the MSPB website; began adding *all* pre-1994 decisions to website database; listservs for studies implemented

FY 2003 Completed and implemented redesigned MSPB website; now distribute all decisions issued by Board electronically; determined that with use of MSPB staff only, adding additional pre-1994 decisions to website will have to continue over the next 2 years, as staffing allows

FY 2004 Updated the website to reflect new Board member designations and agency reorganizations, add new MSPB publications and support e-Appeal phase II; continued to work with the Government Printing Office (GPO) to implement web-based on-line survey capabilities; developed and implemented the IT workforce plan in compliance with the e-Government Act using a mixture of Government and contractor resources to ensure MSPB has the requisite IT skills to meet requirements

FY 2005 Improved and updated information available on the website to include adding precedential decisions for CY 2002 and CY 1994 that contain West (MSPR) citations; increased electronic responses to document requests; continued reviewing e-Government initiatives and implemented the Gov-Trip e-Travel system; formed MSPB IT users group as part of the plan to comply with the e-Government Act; shared information about MSPB e-Government systems (e-Appeal, Law Manager, and DMS) with other agencies

Targets

FY 2005 Continue to provide information on the MSPB website and add new information in response to customer needs; continue to provide information to customers in electronic form when requested; continue review of Government e-Government initiatives for applicability to MSPB operations; continue implementation of plan for compliance with E-Government Act of 2002

FY 2006 Consider technology enhancements to improve MSPB's network performance and reliability, remote access capability and processing efficiency; begin consolidating MSPB document repositories; improve access to MSPB documents through enhancements to and improvements in the content and usability of MSPB internet and intranet websites; assess IRM customer satisfaction and implement recommendations as appropriate; implement IRM service level agreement

This Goal was MET. In addition to the activities listed above, we also deployed new upgraded computers to all employees, upgraded NOTES email and HotDocs document assembly systems, developed secure remote access capabilities, and tested wireless broadband technology for use by employees on travel status. Performance Goal 3.4.1 has been reworded for FY 2006 to reflect a wider range of issues related to technology capabilities and services. The FY 2006 plans for this Goal include efforts to improve MSPB's network performance and reliability, remote access capability and processing efficiency. We will also begin consolidating MSPB document repositories, and improve access to information by enhancing and improving the content (e.g., continuing to add past cases to the website) and usability of the websites. In addition, we will assess IRM customer satisfaction and implement recommendations as appropriate.

Objective 5: Maintain information security sufficient to safeguard agency information and assets from compromise and to ensure the highest possible availability of information services to customers

Performance Goal 3.5.1 - Make improvements in information technology security program and comply with the Federal Information Security Management Act (FISMA) of 2002

Results

FY 2002 Trained all employees on security awareness; completed Security Plan; updated Risk Analysis; completed Contingency Plan for major systems

FY 2003 Completed all information security initiatives in accordance with FY 2003 Plan of Action & Milestones submitted to OMB—except for background investigations being conducted by OPM and cancellation of one item; independent auditor conducted information security review and complete IG portion of 2003 FISMA Report; filed FISMA Report with OMB and Congress; trained all staff on security awareness

FY 2004 Ensured CMS/LM and e-Appeal systems were certified and accredited for adherence to security guidelines; updated the IT security plan, program and manuals to include several security improvements as well as the new case management and e-Appeal systems; updated the Critical Infrastructure Plan and New Employee Computer Guide; developed an IT training plan including security training; provided FISMA security awareness training to all IT staff and pertinent agency officials; completed annual FISMA audit revealing no material weaknesses and sent report to OMB on October 6, 2004

FY 2005 Provided security awareness training to all staff; based on enhancements to electronic case processing, our annual independent IT security audit, and the FISMA process took several actions to improve our security program and IT infrastructure security including completing e-Authentication Risk Assessment, conducting external penetration test of network, deploying Windows service pack 2 to all workstations, and installing new centralized antivirus server

Targets

FY 2005 Provide security awareness training to all staff; revise security plans as needed, based on enhancements to electronic case processing systems; continue to review and improve our IT infrastructure security with input from our annual independent security audit

FY 2006 Continue to enhance the Board's information security program to prevent data tampering, disruption of critical operations, fraud and disclosure of sensitive information; plan for implementation of Internet protocol version 6 (IPv6)

This Goal was MET. We continue to maintain and improve our information security to ensure our systems and information are secure and reliable. In addition, we conducted an inventory of existing IP capable devices and technologies in preparation for transition to IPv6 project (an effort scheduled to begin in FY 2006). Our FY 2006 target for this Goal has been reworded to focus on the effect of our efforts under this goal and to begin planning for the implementation of Internet protocol version 6 (IPv6).

Financial Accountability Report

A Message from the Chief Financial Officer

I am pleased to present the U. S. Merit Systems Protection Board's (MSPB) financial statements for fiscal year 2005. Once again, we are proud of our accomplishment in receiving an unqualified opinion on our financial status from our independent auditor. We are also pleased that our efforts to meet the new accelerated reporting requirements of OMB Circular A-136 resulted in timely submission of this data. Since June of 2002, we have been working with the Department of the Treasury's Bureau of the Public Debt (BPD), whose systems have been certified as an accredited accounting operation, is responsible for handling our administrative payments and preparing our financial statements that are included in this report. Through its franchise operation, BPD has been providing us with timely and complete reports to satisfy both our day-to-day operating needs as well as the reporting requirements for Congress, our auditors, and other external reviewing organizations.

This working relationship between MSPB and BPD has facilitated the agency's compliance with all external reporting requirements. The timeliness and completeness of the reports allow us to operate more efficiently and to identify and correct any potential problems very quickly. Reports and communications between the MSPB and the BPD are virtually all electronic, in compliance with the President's Management Agenda initiative to increase the use of e-government applications as much as possible. We also implemented an electronic time and attendance reporting tool and an electronic travel system, GovTrip, that saves staff time and provides more efficient and accurate data. All time and attendance and travel related documents are now handled electronically.

We are also committed to strengthening our financial performance in accordance with that Presidential Management Agenda initiative. Our relationship with the BPD has strengthened our financial performance. In recent years, we have increased our reporting of the cost of developing internal use software and leaseholder improvements.

We will continue to work on improving our financial management performance during the coming years.



Charles Roche
Chief Financial Officer

November 15, 2005

Letter to the Auditor on Management Controls



U.S. MERIT SYSTEMS PROTECTION BOARD

Financial and Administrative Management
1615 M Street, NW

Washington, DC, DC 20036

Phone: (202) 653-6772, ext. 1119; Fax: (202) 653-7821; E-Mail: roche@mspb.gov

Director

October 28, 2005

MANAGEMENT REPRESENTATION LETTER

Mr. Tyrone Brown
Managing Member
Brown & Company CPAs, PLLC
9200 Basil Court
Suite 400
Largo, Maryland 20774

Dear Mr. Brown:

This letter is in connection with your audit of the U.S. Merit Systems Protection Board's Principal Statements (also referred to as "financial statements") as of September 30, 2005 and for the year then ended for the purposes of (1) expressing an opinion as to whether the Principal Statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, and (2) reporting whether the agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2005.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit that these representations are as of the date of your auditor's report, and pertain to the periods covered by the financial statements. These representations update the representations we provided in conjunction with your audit of the financial statements as of and for the year ended September 30, 2004.

1. We are responsible for the fair presentation of the Principal Statements and Required Supplementary Stewardship Information in conformity with accounting principles generally accepted in the United States of America.
2. The financial statements are fairly presented in conformity with accounting principles generally accepted in the United States of America.
3. We have made available to you all

- a. financial records and related data,
 - b. where applicable, minutes of the meetings of the U.S. Merit Systems Protection Board or summaries of actions of recent meetings for which minutes have not been prepared, and
 - c. communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
 5. The U.S. Merit Systems Protection Board has satisfactory title to all owned assets, including stewardship property, plant, and equipment: such assets have no liens or encumbrances, nor have any assets been pledged.
 6. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
 7. Guarantees under which the U.S. Merit Systems Protection Board is contingently liable have been properly reported or disclosed
 8. Related-party transactions and related receivables or payables, including assessments, loans, transfers, and guarantees have been appropriately recorded and disclosed.
 9. All intra-entity transactions and activities have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intra-governmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intra-governmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide*, and other intra-governmental asset, liability and revenue amounts as required by OMB Bulletin 01-09, *Form and Content of Agency Financial Statements* as amended.
 10. There are no known;
 - a. violations or possible violations of laws and regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency,
 - b. unasserted claims or assessments that are probable of assertion and must be disclosed, that have not been disclosed, or
 - c. material liabilities or gain or loss contingencies that are required to be accrued or disclosed, that have not been disclosed.
 11. Management acknowledges its responsibility for the design and implementation of programs and controls to prevent and detect fraud. We confirm that management has no:
 - a. Knowledge of any fraud or suspected fraud affecting the organization involving management, employees who have significant roles in internal control, and others, where the fraud could have a material effect on the financial statements.
 - b. Knowledge of any allegations of fraud or suspected fraud affecting the organization received in communications from employees, former employees, analysts, regulators, short-sellers, or others.
 12. Pursuant to the Federal Managers' Financial Integrity Act, we have assessed the effectiveness of the U.S. Merit Systems Protection Board's internal control in achieving the following objectives:

- a. Reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of the Principle Statements and Required Supplementary Stewardship Information in accordance with accounting standards generally accepted in the United States of America, and that assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
 - b. Compliance with applicable laws and regulations – transactions are executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (ii) any other laws, regulations, and government wide policies identified by the Office of Management and Budget (OMB) in Appendix C of OMB's Audit Bulletin; and
 - c. Reliability of performance reporting – transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
- 13. We are responsible for implementing and maintaining financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level.
 - 14. We have assessed the financial management systems to determine whether they comply substantially with these Federal management systems requirements. Our assessment was based on guidance issued by OMB.
 - 15. The financial management systems complied substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the SGL at the transaction level as of September 30, 2005.
 - 16. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 - 17. We are responsible for the U.S. Merit Systems Protection Board's compliance with applicable laws and regulations.
 - 18. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
 - 19. No events have occurred subsequent to the date of the statement of financial position that would require adjustment to, or disclosure in, the financial statements.
 - 20. No material events or transactions have occurred subsequent to September 30, 2005 that have not been properly recorded in the financial statements and required supplementary stewardship information or disclosed in the notes thereto.



Charles Roche
Director, Financial and Administrative Management

Independent Auditor's Report on the Financial Statements



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

U.S. Merit Systems Protection Board
Washington, D.C.

We have audited the accompanying consolidated balance sheets of the U.S. Merit Systems Protection Board (the Merit Systems) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, and changes in net position and of financing and the combined statement of budgetary resources for the years then ended. These financial statements are the responsibility of the Merit System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated and combined statements referred to above present fairly, in all material respects, the financial position of the Merit Systems as of September 30, 2005 and 2004, and the results of its net costs of operations, changes in its net position, budgetary resources and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2005 on our consideration of the Merit Systems internal control over financial reporting and a report dated October 28, 2005 on its compliance with laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The information in the Management's Discussion and Analysis and Required Supplementary Information sections is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of information. However, we did not audit this information and, accordingly, we express no opinion on it.

Largo, Maryland
October 28, 2005

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Audited Financial Statements

**U.S. MERIT SYSTEMS PROTECTION BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2005 AND 2004
(In Dollars)**

	<u>2005</u>	<u>2004</u>
ASSETS:		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 7,596,580	\$ 6,973,486
Accounts Receivable (Note 1)	-	48,000
Total Intragovernmental	<u>7,596,580</u>	<u>7,021,486</u>
Accounts Receivable, Net (Note 1)	9,324	2,366
General Property, Plant and Equipment, Net (Note 3)	7,087,637	9,350,620
Total Assets	<u>\$ 14,693,541</u>	<u>\$ 16,374,472</u>
LIABILITIES:		
Intragovernmental:		
Other (Note 5)	\$ 383,667	\$ 478,125
Total Intragovernmental	<u>383,667</u>	<u>478,125</u>
Accounts Payable (Note 5)	263,003	303,331
Payroll Accrual and Other (Note 5)	1,380,347	1,521,273
Unfunded Leave (Note 5)	2,208,541	2,139,993
Total Liabilities	<u>4,235,558</u>	<u>4,442,722</u>
NET POSITION:	5,719,828	4,817,580
Unexpended Appropriations		
Cumulative Results of Operations	4,738,155	7,114,170
Total Net Position	<u>\$ 10,457,983</u>	<u>\$ 11,931,750</u>
Total Liabilities and Net Position	<u>\$ 14,693,541</u>	<u>\$ 16,374,472</u>

The accompanying notes are an integral part of these statements.

**U.S. MERIT SYSTEMS PROTECTION BOARD
CONSOLIDATED STATEMENTS OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(In Dollars)**

	<u>2005</u>	<u>2004</u>
PROGRAM COSTS:		
Intragovernmental Gross Costs	\$ 8,745,296	\$ 9,892,960
Less: Intragovernmental Earned Revenue	<u>(2,604,993)</u>	<u>(2,610,506)</u>
Intragovernmental Net Costs	6,140,303	7,282,454
 Gross Costs With the Public	 31,765,478	 24,691,426
Less: Earned Revenues From the Public	<u>-</u>	<u>-</u>
Net Costs With the Public	<u>31,765,478</u>	<u>24,691,426</u>
Total Net Cost	37,905,781	31,973,880
 Costs Not Assigned To Programs	 -	 -
 Less Earned Revenues Not Attributable To Programs -	 -	 -
 Net Cost Of Operations	 <u>\$ 37,905,781</u>	 <u>\$ 31,973,880</u>

The accompanying notes are an integral part of these statements.

U.S. MERIT SYSTEMS PROTECTION BOARD
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(In Dollars)

	2005 Cumulative Results Of Operations	2005 Unexpended Appropriations	2004 Cumulative Results Of Operations	2004 Unexpended Appropriations
Beginning Balances	\$ 7,114,170	\$ 4,817,580	\$ 4,163,771	\$ 5,383,556
Prior Period Adjustments	<u>7,114,170</u>	<u>4,817,580</u>	<u>4,163,771</u>	<u>5,383,556</u>
Beginning Balances, as Adjusted				
Budgetary Financing Sources:				
Appropriations Received	-	34,677,000	-	32,877,000
Other Adjustments (recissions, etc)	-	(415,448)	-	(584,676)
Appropriations Used	33,359,304	(33,359,304)	32,858,300	(32,858,300)
Other Financing Sources:				
Imputed Financing from Costs	<u>2,170,462</u>	<u>-</u>	<u>2,065,979</u>	<u>-</u>
Absorbed by Others				
Total Financing Sources	35,529,766	902,248	34,924,279	(565,976)
Net Cost of Operations	<u>37,905,781</u>		<u>31,973,880</u>	
Ending Balances	<u>\$ 4,738,155</u>	<u>\$ 5,719,828</u>	<u>\$ 7,114,170</u>	<u>\$ 4,817,580</u>

The accompanying notes are an integral part of these statements.

U.S. MERIT SYSTEMS PROTECTION BOARD
COMBINED STATEMENTS OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(In Dollars)

	<u>2005</u>	<u>2004</u>
BUDGETARY RESOURCES:		
Budget Authority:		
Appropriations	\$ 34,677,000	\$ 32,877,000
Unobligated Balance:		
Beginning of Period	1,127,238	1,148,500
Spending Authority from Offsetting Collections:		
Earned		
Collected	2,604,993	2,610,506
Subtotal	<u>38,409,231</u>	<u>36,636,006</u>
Recoveries of Prior-Year Obligations:		
Actual	1,285,596	154,618
Permanently Not Available		
Cancellations of Expired and No-Year Accounts	(138,032)	(390,702)
Enacted Recissions	(277,416)	(193,974)
Total Budgetary Resources	<u>\$ 39,279,379</u>	<u>\$ 36,205,948</u>

STATUS OF BUDGETARY RESOURCES:

Obligations Incurred:		
Direct	\$ 34,365,980	\$ 32,468,204
Reimbursable	<u>2,604,993</u>	<u>2,610,506</u>
Subtotal	36,970,973	35,078,710
Unobligated Balance:		
Apportioned	265,455	316,726
Unobligated Balance Not Available		
Other	2,042,951	810,512
Total Status of Budgetary Resources	<u>\$ 39,279,379</u>	<u>\$ 36,205,948</u>

The accompanying notes are an integral part of these statements.

**U.S. MERIT SYSTEMS PROTECTION BOARD
COMBINED STATEMENTS OF BUDGETARY RESOURCES (CONT.)
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(In Dollars)**

	<u>2005</u>	<u>2004</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
Obligated Balance, Net, Beginning of Period	\$ 5,846,248	\$ 6,049,142
Obligated Balance, Net, End of Period:		
Undelivered Orders	3,411,422	3,690,342
Accounts Payable	1,876,754	2,155,906
Outlays:		
Disbursements	36,243,449	35,126,988
Collections	<u>(2,604,993)</u>	<u>(2,610,506)</u>
Subtotal	33,638,456	32,516,482
Less: Offsetting Receipts	-	-
Net Outlays	<u>\$ 33,638,456</u>	<u>\$ 32,516,482</u>

The accompanying notes are an integral part of these statements.

U.S. MERIT SYSTEMS PROTECTION BOARD
CONSOLIDATED STATEMENTS OF FINANCING
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(In Dollars)

	<u>2005</u>	<u>2004</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$36,970,973	\$35,078,710
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(3,890,589)</u>	<u>(2,765,123)</u>
Obligations Net of Offsetting Collections and Recoveries	33,080,384	32,313,587
Other Resources		
Imputed Financing from Costs Absorbed by Others	<u>2,170,462</u>	<u>2,065,979</u>
Net Other Resources Used to Finance Activities	2,170,462	2,065,979
Total Resources Used to Finance Activities	35,250,846	34,379,566
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and		
Benefits Ordered But Not Yet Provided	278,921	544,713
Resources That Fund Expenses Recognized in Prior Periods	41,043	-
Resources That Finance Acquisition of Assets	<u>229,080</u>	<u>(4,537,088)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	549,044	(3,992,375)
Total Resources Used to Finance the Net Cost of Operations	<u>35,799,890</u>	<u>30,387,191</u>
Components of the Net Cost of Operations That will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	68,549	89,960
Other	<u>3,438</u>	<u>112,434</u>
Total Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period	71,987	202,394
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	2,033,904	1,429,952
Revaluation of Assets or Liabilities		1,883
Other	<u>-</u>	<u>(47,540)</u>
Total Components of Net Cost of Operations That will not Require or Generate Resources	<u>2,033,904</u>	<u>1,384,295</u>
Total Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period	<u>2,105,891</u>	<u>1,586,689</u>
Net Cost of Operations	<u><u>\$37,905,781</u></u>	<u><u>\$31,973,880</u></u>

The accompanying notes are an integral part of these statements.

**MERIT SYSTEMS PROTECTION BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, status and availability of budgetary resources, and the reconciliation between proprietary and budgetary accounts of the Merit Systems Protection Board (MSPB). The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Accountability of Tax Dollars Act of 2002 and the Office of Management and Budget (OMB) Bulletin Number 01-02, Audit Requirements for Federal Financial Statements. They have been prepared from, and are fully supported by, the books and records of MSPB in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, Financial Reporting Requirements, and MSPB accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control MSPB's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, and the Statement of Custodial Activity. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all dollar amounts are presented in dollars.

B. Reporting Entity

The U.S. Merit Systems Protection Board is an independent, quasi-judicial agency in the Executive branch that serves as the guardian of federal merit systems. The Board was established by the Civil Service Reform Act of 1978 (CSRA) with a mission of ensuring that employees are protected against abuses by agency management, that Executive branch agencies make employment decisions in accordance with the merit systems principles, and that federal merit systems are kept free of prohibited personnel practices.

MSPB has rights and ownership of all assets reported in these financial statements. MSPB does not possess any non-entity assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal requirements on the use of federal funds.

D. Revenues & Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating and capital expenditures. Appropriations are recognized as a financing source when expended. Appropriations expensed for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

Revenues from service fees associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services.

The MSPB recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on our behalf by the Office of Personnel Management (OPM).

E. Taxes

MSPB, as a Federal entity, is not subject to Federal, State, or local income taxes, and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

F. Fund Balance with Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. MSPB does not maintain cash in commercial bank accounts.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable

Accounts receivable owed to MSPB include reimbursements from employees and amounts receivable from federal agencies for services provided. An allowance for uncollectible accounts receivable from the public is established when either (1) based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent. Accounts receivable from the public were \$9,324 and \$2,366 as of September 30, 2005 and 2004, respectively. Accounts receivable from federal agencies were \$0 and \$48,000 as of September 30, 2005 and 2004, respectively.

H. Property, Plant and Equipment (PP&E), Net

MSPB's property, plant and equipment is recorded at original acquisition cost and is depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. MSPB's capitalization threshold is \$50,000 for individual purchases and \$500,000 for bulk purchases. Service lives for office equipment is 10 years, internal use software lives are 5 years and leasehold improvements are depreciated over the period of the lease. See Note 3 for additional information.

I. Liabilities

Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available Congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding. Intragovernmental liabilities are claims against MSPB by other Federal agencies. Liabilities not covered by budgetary resources on the Balance Sheet are equivalent to amounts reported as Components requiring or generating resources on the Statement of Financing. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities.

J. Accounts Payable

Accounts payable consists of amounts owed to other Federal agencies and the public.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used.

L. Accrued Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because MSPB will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

M. Retirement Plans

MSPB employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The employees who participate in CSRS are beneficiaries of MSPB's matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability fund.

FERS and Social Security cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1987 elected to join FERS and Social Security, or remain in CSRS. Employees hired as of January 1, 1987 are automatically covered by FERS. FERS offers a savings plan to which MSPB automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For FERS participants, MSPB also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, MSPB remits the employer's share of the required contribution.

MSPB recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicates these factors to MSPB for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. MSPB recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

MSPB does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates include (a) year-end accruals of accounts payable, and (b) accrued workers' compensation.

O. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. MSPB recognized imputed costs and financing sources in fiscal years 2005 and 2004 to the extent directed by OMB.

P. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. MSPB recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. MSPB discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to MSPB for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made. There are no contingencies that require disclosure.

Q. Expired Accounts and Cancelled Authority

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account in which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is cancelled.

R. Reclassification

Certain fiscal year 2004 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2005 and 2004 were:

Fund Balances:

	<u>2005</u>	<u>2004</u>
Appropriated Funds	<u>\$ 7,596,580</u>	<u>\$ 6,973,486</u>

Status of Fund Balance with Treasury:

	<u>2005</u>	<u>2004</u>
Unobligated Balance		
Available	\$ 265,455	\$ 316,726
Unavailable	2,042,951	810,512
Obligated Balance not yet Disbursed	<u>5,288,174</u>	<u>5,846,248</u>
Total	<u>\$ 7,596,580</u>	<u>\$ 6,973,486</u>

NOTE 3. GENERAL PROPERTY, PLANT, AND EQUIPMENT

Schedule of Property, Plant, and Equipment as of September 30, 2005

Description	Acquisition Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	\$ 1,332,563	(\$628,043)	\$ 704,520
Office Equipment	73,776	(45,188)	28,588
Internal Use Software	<u>9,522,385</u>	<u>(3,167,856)</u>	<u>6,354,529</u>
Totals	<u>\$10,928,724</u>	<u>(\$3,841,087)</u>	<u>\$ 7,087,637</u>

NOTE 3. GENERAL PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

Schedule of Property, Plant, and Equipment as of September 30, 2004

Description	Acquisition Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	\$ 1,198,529	(\$447,296)	\$ 751,233
Office Equipment	287,623	(251,657)	35,966
Software In Development	42,000	-	42,000
Internal Use Software	<u>9,843,499</u>	<u>(1,322,078)</u>	<u>8,521,421</u>
Totals	<u>\$11,371,651</u>	<u>(\$2,021,031)</u>	<u>\$ 9,350,620</u>

NOTE 4. OPERATING LEASES

MSPB occupies office space or warehouse space at four locations with lease agreements that are accounted for as operating leases. The first lease for office space (Denver) began on November 1, 2001 and expires on December 31, 2011. Annual lease payments of \$101,837 are increased annually by two percent of the Base Rental Rate (BRR) in effect for the prior lease year. The second lease for office space (Washington Regional Alexandria Office) began on September 15, 2000 and expires on September 14, 2010. Annual lease payments of \$166,019 are increased annually by two and one half percent of the BRR in effect for the prior lease year, except in the sixth year. In the sixth year of the lease, the BRR shall increase by \$1.50 per square foot. The third agreement (office headquarters) began on June 1, 2000 and expires on May 31, 2010. Annual lease payments of \$1,506,440 are increased annually by three percent of the Base Rental Rate (BRR) in effect for the prior lease year, except in the sixth year. In the sixth year of the lease, the BRR shall increase by \$2.50 per square foot. The fourth lease (warehouse space) began on April 1, 2003 and expires on March 31, 2013. Annual lease payments of \$23,180 are increased by four percent of the BRR in effect for the prior lease year.

The operating costs escalate by the Consumer Price Index and MSPB pays its pro-rata share of any property tax increases.

NOTE 4. OPERATING LEASES (CONTINUED)

Schedule of Future Minimum Lease Payments

2006	\$ 2,195,894
2007	2,260,068
2008	2,326,133
2009	2,394,147
2010	1,748,455
Thereafter	<u>225,532</u>
Total Future Minimum Lease Payments	<u>\$11,150,229</u>

NOTE 5. LIABILITIES

The accrued liabilities for MSPB are comprised of program expense accruals, payroll accruals, and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

Schedule of Liabilities as of September 30,

	<u>2005</u>	<u>2004</u>
Intragovernmental		
FECA	\$ 150,263	\$ 146,825
Payroll Taxes Payable	163,812	137,119
Other Accrued Liabilities	<u>69,592</u>	<u>194,181</u>
Total Intragovernmental	383,667	478,125
Accounts Payable	263,003	303,331
Payroll Accrual and Other	1,380,347	1,521,273
Unfunded Leave	<u>2,208,541</u>	<u>2,139,993</u>
Total Liabilities	<u>\$ 4,235,558</u>	<u>\$4,442,722</u>

NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on MSPB's Balance Sheet as of September 30, 2005 and 2004, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consist entirely of unfunded leave. Unfunded leave balances are \$2,208,541 and \$2,139,993 as of September 30, 2005 and 2004, respectively.

NOTE 7. IMPUTED FINANCING SOURCES

MSPB recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the Office of Personnel Management (OPM). Total imputed financing sources from OPM were \$2,170,462 and \$2,065,979 for the fiscal years ended September 30, 2005 and 2004, respectively.

NOTE 8. OPERATING/PROGRAM COSTS

Cost by major budgetary object classification are as follows:

	<u>2005</u>	<u>2004</u>
Major Budgetary Object Classification		
Personnel	\$22,868,197	\$21,485,891
Benefits	7,190,755	6,708,069
Benefits to Former Employees	(18,664)	104,635
Travel	529,193	526,894
Transportation	224,036	141,599
Rents, Communications	3,237,568	3,325,818
Printing and Reproduction	200,611	36,658
Other Services	2,319,524	(14,984)
Supplies and Materials	222,552	281,219
Equipment	3,555,999	1,828,194
Land & Structures	180,747	159,071
Interest and Dividends	<u>256</u>	<u>1,322</u>
Total Object Classification	<u>\$40,510,774</u>	<u>\$34,584,386</u>

NOTE 9. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The 2007 Budget of the United States Government, with the Actual Column completed for fiscal year 2005, has not yet been published as of the date of these financial statements. The Budget is expected to be published and delivered to Congress in early February 2006. The 2006 Budget of the United States Government, with the Actual Column completed for 2004, has been reconciled.

NOTE 10. CUSTODIAL ACTIVITY

MSPB's custodial collection primarily consists of Freedom of Information Act requests. While these collections are considered custodial, they are not primary to the mission of MSPB nor material to the overall financial statements. MSPB's total custodial collections are \$1,000 and \$1,265 for the years ended September 30, 2005, and 2004, respectively.

Merit Systems Protection Board
Required Supplementary Information
Trading Partner Information
As of and for the year ended September 30, 2005

Agency	Assets			Liabilities			
	Fund Balance with Treasury	Advances	Total	Accounts Payable and Accruals	Payroll Taxes	Other	Total
Department of Labor	\$ -	\$ -	\$ -	\$ 150,263.43	\$ -	\$ -	\$ 150,263.43
Department of Treasury	7,596,579.10	-	7,596,579.10	-	-	-	-
Office of Personnel Management	-	-	-	-	125,023.01	-	125,023.01
General Services Administration	-	-	-	-	-	69,592.17	69,592.17
General Fund of the Treasury	-	-	-	-	38,788.42	-	-
=							
Total	<u>\$ 7,596,579.10</u>	<u>\$ -</u>	<u>\$ 7,596,579.10</u>	<u>\$ 150,263.43</u>	<u>\$ 163,811.43</u>	<u>\$ 69,592.17</u>	<u>\$ 383,667.03</u>

Independent Auditor's Report on Internal Control over Financial Reporting



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

U.S. Merit Systems Protection Board
Washington, D.C.

We have audited the financial statements of the U.S. Merit Systems Protection Board (the Merit Systems) as of and for the year ended September 30, 2005 and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered the Merit Systems' internal control over financial reporting by obtaining an understanding of the Merit Systems' internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Merit Systems' ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

This report is intended solely for the information and use of the management of the U.S. Merit Systems Protection Board, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Largo, Maryland
October 28, 2005

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Independent Auditor's Report on Compliance with Laws and Regulations



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

U.S. Merit Systems Protection
Board Washington, D.C.

We have audited the financial statements of the U.S. Merit Systems Protection Board (the Merit Systems) as of and for the year ended September 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The management of the Merit Systems is responsible for complying with laws and regulations applicable to the Merit Systems. As part of obtaining reasonable assurance about whether the Merit Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

This report is intended solely for the information and use of the management of the U.S. Merit Systems Protection Board, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Largo, Maryland
October 28, 2005

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Appendix A: Abbreviations and Acronyms

ADR	Alternative Dispute Resolution
AJ	Administrative Judge
ALJ	MSPB Office of Administrative Law Judge
APHIS	USDA Animal Plant and Health Inspection Service
BPD	Department of the Treasury Bureau of the Public Debt
CMS	Case Management System
CSRA	Civil Service Reform Act
EEO	MSPB Office of Equal Employment Opportunity
FAM	MSPB Office of Financial and Administrative Management
GPRA	Government Performance and Results Act
HQ	MSPB Headquarters
IDP	Individual Development Plans
IPMA	International Personnel Management Association
IRA	Individual Rights of Action
IRM	MSPB Office of Information Resources Management
LM	Law Manager
MAP	Mediation Appeals Program
MPS	Merit Principles Survey
MSPB	Merit Systems Protection Board
OAC	MSPB Office of Appeals Counsel
OCB	MSPB Office of the Clerk of the Board
OGC	MSPB Office of General Counsel
OMB	Office of Management and Budget
OPE	MSPB Office of Policy and Evaluation
OPM	Office of Personnel Management
ORO	MSPB Office of Regional Operations
PAR	Performance and Accountability Report
PFR	Petition for Review
RO	Regional Office
VERA	Voluntary Early Retirement Authority
VSIP	Voluntary Separation Incentive Program
WPA	Whistleblower Protection Act